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EuroDisney – Fixed costs on a business of dreams

By João on September 8, 2014 at 9:00 am

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Some time ago, we posted on the quite poor financial performance of EuroDisney (<http://burnsetal.com/2013/03/cvp-analysis-a-longer-term-perspective/>). That post focused on the revenue side, and it was suggested that there was not much that Disney could do about their costs (mostly fixed).

Just back again from a few days there (a wonderful time, as always...), I will discuss a bit about the “fixed” nature of EuroDisney’s costs. Of course, on a very short term, most of them are indeed fixed: an additional customer implies virtually no incremental costs, and purchases at the shops surely provide generous margins over variable costs. But let’s extend the time horizon a little bit. When walking around the park, you can’t help noticing the amazing number of staff. Some of this staff are directly engaged with generating income (for example, in the shops all over the place). But there is a countless number of people coordinating events, operating and making thorough safety checks at all attractions, keeping the place impeccably clean, simply walking around for any issue or query that arises, all the actors, musicians and dancers... Not to mention all the staff that visitors can’t see but which are “behind the scenes” making all this work. Surely, altogether they do represent A LOT of fixed costs.

... you will be tempted to diagnose ... if some of that “non-revenue generating staff” could be reduced in a relatively short time horizon. I don’t know the contractual details, but I’d guess that a significant percentage of the staff has quite flexible contracts. You may well be tempted to think that reductions on this type of staff may yield interesting quick cost savings (on costs which are fixed on a per-customer basis but not committed on a slightly longer term), and may not have a significant impact on visitors’ experience. And probably some people at Disney consider that possibility, every now and then.

As it is usually the case, “temptations” (such as those described in the previous paragraph) may not be good options. There is probably a good reason why such high numbers of staff are there. It’s because if they weren’t there, each visit to Eurodisney might not be so wonderful, so worries-free, so effective in making children and adults dream about a perfect world of happiness and just have fun. So effective in making us or our little ones want to return again (it’s my fourth time there...) – and generate more revenues in a more or less distant future.

This is a tricky balance. But Disney managers know that chasing short term benefits through cost cuts may risk compromising long term reputation, attractiveness and revenues. And that’s a risk that Disney most likely cannot afford. That’s why being a manager at Disney must certainly require an excellent balance between financial and business sensitiveness, and must be an absolutely thrilling experience (plus: you probably manage to see your favourite Disney character quite often! 😊).

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